



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 6

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JUL -2 2015

Alex Appeaning, Ph.D.
Deputy Secretary
Louisiana Department of Environmental Quality
P.O. Box 4303
Baton Rouge, LA 70821-4303

Dear Dr. Appeaning:

Enclosed is the final State Fiscal Year (SFY) 2014 base program Clean Water State Revolving Fund (CWSRF) annual Program Evaluation Report. The report is based on the State's FY 2014 CWSRF Annual Report, on-site discussions and file reviews in March 2015, and the EPA's completion of our standardized national checklists of program evaluation questions. We appreciate your assistance, as well as that of your staff, in this review process.

The Louisiana Department of Environmental Quality (LDEQ) is commended for complying with Title VI, Section 606(e) of the Clean Water Act (CWA), 40 CFR 35.3165(c), its capitalization grant conditions, and operating agreement conditions. Notwithstanding a few recommendations, LDEQ is effectively managing the CWSRF Program. We commend LDEQ for continuing to expend funds within two years of the grant award, thereby maintaining a low unliquidated obligation (ULO) balance.

We appreciate the efforts of the LDEQ in protecting the waters in the state of Louisiana. If you have questions regarding the report, please feel free to contact me at (214) 665-7101, or have your staff contact Mrs. Claudia Hosch, Associate Director of the Assistance Programs Branch, at (214) 665-7110.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "WK Honker", is positioned above the typed name.

William K. Honker, P.E.
Director
Water Quality Protection Division

Enclosure

cc: Mr. Bijan Sharafkhani (LDEQ)
Ms. Karyn Andrews (LDEQ)
Ms. Sierra Trabeau (LDEQ)
Mr. Jonathan McFarland (LDEQ)



Louisiana Final Program Evaluation Report

State Fiscal Year 7/01/2013 - 6/30/2014

Prepared by EPA Region 6

Assistance Programs Branch

May 2015

CWSRF BASE PROGRAM EVALUATION REPORT

I. Introduction

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the State's Fiscal Year 2014 (SFY 2014) operation of the Clean Water State Revolving Fund (CWSRF) Program, and to document whether the State has complied with the requirements of Title VI of the Clean Water Act (CWA).

Title VI, Section 606(e) of the Clean Water Act (CWA), and 40 CFR 35.3165(c) require the Environmental Protection Agency (EPA) to conduct an annual review of each State's CWSRF to ensure compliance with Title VI of the CWA.

The purposes of the annual review are:

- to evaluate the success of the state's performance in achieving goals and objectives identified in the Intended Use Plan (IUP), and the state's Annual Report;
- to evaluate the state's compliance with its Operating Agreement;
- to determine compliance with Part 31 of the general grant regulations and the provisions of the capitalization grant agreement, including special conditions;
- to assess the financial status and performance of the fund;
- to review the status of resolution of prior year Program Evaluation Report (PER) findings; and
- to examine and follow up on any open audit findings and recommendations.

II. Review Results and EPA Recommendations

This annual program review covered the SFY 2014 operation, as well as previous years, and was conducted both in-house at EPA and on-site at the Louisiana Department of Environmental Quality's (LDEQ) offices. The review was conducted on March 2-6, 2015, and covered active grant #CS22000214. EPA reviewed the following two project files: Jefferson Parish and the City of Lake Charles. On March 24, 2015, EPA and LDEQ staff participated in a conference call to discuss the Annual Review Checklist.

Notwithstanding the following observations, EPA found that LDEQ is in compliance with Title VI, Section 606(e) of the CWA, 40 CFR 35.3165(c), the capitalization grant conditions, and operating agreement conditions.

A. Programmatic, Technical, and Environmental Results

1. Overall Observations

LDEQ had complete and well-organized files that included all of the items required for the review. In addition, LDEQ's electronic filing system greatly increased the efficiency of the review.

2. Operating Agreement

On June 10, 2014, the Water Resources Reform and Development Act (WRRDA) was signed into law. This amended Title VI of the Clean Water Act, which impacted the CWSRF program. The majority of the amendments require a change to the Operating Agreement. EPA recommends that the operating agreement be updated to include the most recent WRRDA amendments once state processes are finalized.

EPA Recommendation: If the operating agreement is not amended prior to the FY15 cap grant application, compliance with the new requirements will need to be included in the FY16 IUP.

LDEQ Response: LDEQ will include the new requirements in the FY16 IUP.

EPA Response: Thank you for the update.

3. Green Project Reserve

Green Project Reserve (GPR) requirements were established for the CWSRF base program in EPA's Federal Fiscal Year 2012 appropriation. They were passed through to the state in their capitalization grant. LDEQ's responsibilities this year are to solicit and fund GPR projects, or components of projects, for not less than 10% of the capitalization grant amount. The four categories of GPR are green infrastructure, energy efficiency, water efficiency, and environmentally innovative projects. The state also must identify those projects in the IUP and Annual Report, state whether they are categorically green or will require a business case, review all business cases, and post any business cases on their website by the end of the quarter in which the loan is made.

LDEQ's Green Project Reserve target for SFY 2014 was \$1,541,300. According to the Clean Water Benefits Reporting System (CBR), LDEQ has provided funding in the amount of \$0 to date for FY14. EPA reviewed one GPR project during this review, Jefferson Parrish, which met the 2012 grant requirements for GPR.

EPA relies on the information in CBR to report to the Office of Management and Budget (OMB), the Office of the Inspector General (OIG), and Congress concerning the GPR grant requirement. As GPR information changes, updates to these systems should be made timely. At a minimum, final GPR expenditure amounts, verified with pay requests, should be updated in CBR. Please verify that GPR information for closed projects has been updated in CBR. The LDEQ CBR Desk Procedures have been updated to include the following: "CBR should be updated quarterly, and a Final Review should be done at the end of each year before the NIMS reporting to ensure all of the projects are updated to the current information. When a project is closed out if there were any changes to the current loan amount, GPR, or subsidy amounts this should be updated in CBR, the initiation of operations date should be entered if not already, and the box should be checked to indicate the Record is complete." EPA appreciates the quarterly review of information.

EPA Recommendation: Please update EPA regarding the FY14 GPR project status.

LDEQ Response: The FY14 green project in West Monroe has not started. The funding amount will be approximately \$1,543,500 and the loan is expected to close by December 2015.

EPA Response: Thank you for the update.

4. Implementing Federal Cross-Cutting Authorities

On November 5, 2013, EPA released a memo titled “Procedures for Implementing Environmental Federal Cross-Cutting Authorities in the Clean Water and Drinking Water State Revolving Fund Programs,” which clarifies procedures for applying federal environmental cross-cutting authorities to projects and activities receiving assistance under the Clean Water and Drinking Water State Revolving Funds. In order to streamline the cross-cutting process, this memo states that records do not necessarily need to show that each federal agency responsible for administering a cross-cutting authority has been consulted on the particular project. Specifically, if State SRF staff perform an internal analysis and conclusively determine that the proposed project has no potential impact related to a federal cross-cutting authority, then it is not necessary to consult with the agency responsible for that cross-cutter. During the onsite review conference call, LDEQ stated that they are currently not using equivalency procedures in applying crosscutting authorities, and are therefore requiring all projects to comply with these requirements.

EPA Recommendation: EPA recommends LDEQ update their crosscutter SOP, which describes the state’s process for implementing federal cross-cutter authorities, to include any program changes made in lieu of the recent crosscutter memo. This SOP should include information on the state’s internal analysis, if applicable. EPA recommends a brief description of this revised cross-cutter process be included in the updated OA.

LDEQ Response: LDEQ will evaluate the Cross-Cutter SOP for possible reference to the EPA Memo and internal determinations.

EPA Response: Thank you. We will follow-up during the FY15 onsite review.

5. Cross-cutter Compliance as it applies to FFATA

On December 10, 2014, EPA released a memo affirming that banking of federal cross-cutting authorities is not allowed in the CWSRF/DWSRF program. In 2010, the enactment of FFATA (Federal Funding Accountability and Transparency Act) required SRF programs to report in the FFATA Subaward Reporting System (FSRS) on recipients that receive federal dollars. For the purposes of the CWSRF program, such projects are designated as "equivalency" projects and they must comply with specific federal requirements including cross-cutters. LDEQ requires all projects comply with all crosscutter requirements.

EPA staff reviewed LDEQ information reported to FSRS and compared the information to documentation in the project file and information reported in CBR. EPA requires that an amount equal to the cap grant, but no more, be reported to FSRS. While reviewing the submitted data, EPA staff noticed the “initial award” date reported in CBR does not always match the “Subaward Obligation/Action Date” in FSRS. After the review, LDEQ staff provided EPA with a FFATA SOP, which was developed to help mitigate errors in the FSRS database. They also provided their internal tracking spreadsheet with corresponding reports. A summary of information reported to FSRS is below.

Grant #	Cap Grant Amount Awarded	Reported to FFATA
CS22000211	\$22,398,000	\$21,545,000
CS22000212	\$31,770,000	\$31,770,000
CS22000213	\$14,677,000	\$14,677,000
CS22000214	\$15,413,000	\$13,871,700

6. Clean Water Benefits Reporting (CBR)

Recent requests from Congress, the Office of Management and Budget (OMB), and EPA's Office of Inspector General (OIG) have highlighted the importance of having timely and complete data related to CWSRF performance. This point is further illustrated by the current OIG review of the CWSRF Green Project Reserve. The CWSRF Benefits Reporting system (CBR) plays a critical role in EPA's ability to effectively respond to these requests, and the memorandum released January 9, 2015 requests the state's support in ensuring that the CWSRF reporting has reliable project level information that is complete and entered in a timely manner. EPA staff reviewed the CBR data as part of this annual review and compared the reported data to information located in the project file.

Regarding CBR reporting, please ensure CBR data: 1. includes Actual Dates, not estimates; 2. has construction start dates that are reflected on the notice to proceed for construction projects; 3. has Agreement Dates consistent with the bond agreements; and 4. has detailed project descriptions. Project descriptions should include information concerning GPR if applicable.

If project information changes throughout a project, ie. project description, green amount, etc., please update to include most recent and accurate information. At a minimum the State is required to update all information when project is complete. After the review, LDEQ provided EPA with a copy of the CBR SOP, which has been update to include the following statement: “CBR should be updated Quarterly, and a Final Review should be done at the end of each year before the NIMS reporting to ensure all of the projects are updated to the current information. When a project is closed out if there were any

changes to the current loan amount, GPR, or subsidy amounts this should be updated in CBR.”

7. Inspection Reports

EPA staff reviewed state inspections, and evaluated them according to the Project File Checklist. As part of this review, we evaluate the following: (1) whether they are performed at intervals in accordance with the State’s procedures, (2) whether the inspection reports indicate the project is in compliance with Davis Bacon (DB) requirements and Green Project Reserve eligibility (when applicable), American Iron and Steel (AIS); and (3) whether all issues and concerns identified in the inspection reports are adequately resolved. EPA recommends that documentation for AIS compliance be added to future inspection reports.

LDEQ conducts inspections as invoicing (pay requests) occurs. If little or no construction and invoicing occurs for a period of time, no inspection is conducted.

LDEQ staff verifies Davis Bacon compliance by reviewing a sample of payroll and interview records while onsite. The inspection checklist includes this review, which then becomes part of the inspection report. Additionally, sub recipients provide a certification on every pay request which reads: "I certify...that all work is in accordance with the terms and conditions of the Loan Agreement, that the project as completed as of the date of this request has been constructed in accordance with the plans and specifications..." "The Loan and P&S are both legally binding documents which include Davis Bacon requirements. LDEQ believes this satisfies the intent of the T&C regarding “written confirmation in a form satisfactory to the State indicating whether or not the project is in compliance with the requirements of 29 CFR 5.5(a)(1) based on the most recent payroll copies for the specified week.” EPA staff will verify compliance with EPA HQ during FY15.

C. Financial Review Results and Recommendations

1. Cash Draws

Beginning with reviews of SFY 2012 (FY 2013 reporting), the EPA Regions are required to perform transaction testing on SRF cash draws identified by the EPA Office of the Chief Financial Officer (OCFO), using a statistical sampling approach. Each year, the EPA Headquarters SRF branches communicate the selected cash draws (including the date and amount) to the Regions, upon OCFO identification. If fewer than four CWSRF and four DWSRF cash draws were identified by the statistical sampling approach, the Regions select additional cash draws to ensure that a minimum of four draws are reviewed for each program. For SFY2014 the EPA Office of Chief Financial Officer (OCFO) randomly selected two (2) of the draws (as noted by “OCFO selected”) and EPA Region 6 randomly selected two (2) draws to meet the (4) cash draw testing requirement.

	Grant#	Date	Amount	Selected by:
1.	CS22000214	09/29/14	\$ 1,560,863.88	OCFO
2.	CS22000214	11/14/14	\$229,104.00	Region 6
3.	CS22000213	10/31/13	\$2,366,168.00	OCFO
4.	CS22000213	12/04/13	\$127,200.00	Region 6

All four draws tested were loan draws made to reimburse construction expenditures. Construction expenditures included construction services and materials, engineering services, environmental consulting, and inspection services for CWSRF projects. No improper payments were found as part of the four draws selected. As per staff management there was one improper payment that was discovered by the financial staff which was promptly corrected. A memo and documentation was provided to EPA to show the adjustments made to correct the improper payment:

“The LA Clean Water State Revolving Loan Program received an excess of federal funding in fiscal year 2014 due to accounting errors. These errors are attributable to the introduction of a new accounting system (LAGOV) and the retirement of an experienced employee with the CWSRF program. However with other employees gaining knowledge of the program and the establishment of new accounting procedures, these errors should not occur in the future.

In FY2014, \$56,315.92 of federal funding was received in error. When calculating the amount of federal funding to request, a spreadsheet is prepared which breaks down expenditures into two categories: SRF Fund and Admin Fee Fund. In FY2014, some expenses were incorrectly posted to the wrong category or a row in a category which resulted in an error in the federal draw. This spreadsheet is now reviewed by the Accounting Manager after being prepared by the Accountant 4. Also on the same spreadsheet, some expenses that were indirect were posted as direct in FY2014. To correct this problem from occurring again, an order # (special coding) in LAGOV was established in November 2014, to distinguish which expenses are indirect. Since the review, LDEQ has state that they have attached the memo related to this error and, any other applicable documentations showing the correction, to the appropriate file(s). Please ensure all disbursement files have complete backup documentation and are fully auditable.

In FY 2015, the amount of federal funding requested on 1/23/2015 for the CWSRF program was reduced by \$56,315.92 to correct the error made in FY 2014."

2. State Match

LDEQ has provided its required state match on federal grant awards with State General Fund appropriations, Capital Outlay appropriations, tobacco settlement funds, and bond proceeds. In SFY 14 LDEQ issued Revenue Bonds in the amount of \$2.6 million on May 6, 2014, to provide matching funds for the federal capitalization grants. Bonds funds are immediately deposited into the CWSRF fund when drawn. The program draws state

match at 16.67% and then draws 83.33% of federal funds with each of its cash draw transactions. EPA staff validated this process during the review.

3. Timely and Expeditious Use of Funds

The LDEQ reimburses their recipient's as requests are received. On the transactions reviewed for SFY 2014 some of the disbursements were processed within 30 days or less while some payments were delayed due to circumstances (budget adjustments, ready to process items not completed, and etc.) not created by LDEQ. The program has a strong demand for CWSRF funds and at present, the program has one capitalization grant open; FY 2014 #CS22000214, with an available balance of \$5,465,730. This grant has an estimated \$2 million in loan funds and the remainder is administration funds. The program is doing an exceptional job managing the use of funds timely and expeditiously.

EPA Commendation: EPA commends LDEQ for their timely and expeditious use of funds, and having no significant unliquidated obligations (ULOs).

4. Compliance With Audit Requirements

Pinell & Martinez LLC., Certified Public Accountants were retained to audit SFY 2014 CWSRF financial statements for the program. A copy of the audited financial statements for the program, along with the financial statements of the administrative fund held outside the CWSRF, was finalized in a report dated January 19, 2015, and provided to EPA. The audit was given an Unmodified opinion and no findings were noted.

5. Single Audits

The loan recipients are required, for SFY 2014, to provide single audits when annual expenditures of federal funds exceed \$500K. The LDEQ notifies their borrowers that they are a sub recipient to federal dollars in the Loan & Pledge agreement, commitment agreement, the Acknowledgement of OMB Circular No. A-133 form, and at the top of every payment request it states, "CWSRF loans are subject to OMB A-133 and require that a single audit be prepared & submitted annually." The audits are all reviewed by the State. At the time of the on-site review, the single audits required for FY 2014 were submitted and reviewed and if additional information was needed the State sent out letters.

6. Staff Time Allocation/Reporting

All CWSRF and DWSRF programs are required to comply with federal requirements specified in Title 2 CFR Part 225. Labor, fringe benefits, and indirect costs charged to federal grants must be based on actual activities performed, as opposed to budget allocations. In 2013, the Office of Inspector General (OIG) released a report stating that some state programs were not reporting actual time on activities performed. EPA staff reviewed payroll data for the CWSRF program for SFY 2014 while onsite.

EPA Commendation: EPA’s review of state payroll records indicates that staff are recording actual time spent on the SRF program, and proper internal controls and approvals are in place to verify staff time and reporting.

7. Financial Management

EPA commends LDEQ for the financial management and staffing of the CWSRF program. All financial, accounting, and internal control processes are documented in the State’s standard operating procedure (SOP), but each individual task does not contain a specific and separate highlighted SOP. LDEQ management regularly analyze the sustainability of the program to ensure it will exist into perpetuity, and regularly gets advice and cash flow modeling from their financial advisors Public Financial Management Inc. Financial and accounting records, as well as internal controls of the funds, are well managed and documented. Since the review, LDEQ has provided financial SOPs that help ensure procedures are not lost when employees retire or leave the program.

8. Financial Indicators

The State reported the following cumulative financial indicators

CWSRF	National 2014	State 2012	State 2013	State 2014
Federal Return on Investment	256%	143%	146%	154%
Executed Loans % of Funds Available	98%	89%	90%	93%
Disbursements as % of Executed Loans	88%	74%	72%	71%
Additional Loans Made Due to Leveraging	NA	NA	NA	NA
Sustainability (Retained Earning) Excludes Subsidy	19.8%	9.5%	12.0%	14.3%

The financial indicators show that the return of federal investment has increased and remained strong over the last few years, but is still below the national average. The assistance provided as a percent of funds available (also referred to as the “pace” of the program) is strong and has increase the last three years. Disbursements as a percent of assistance provided has decreased the last three years and is below the national average. The state is monitoring the submission of disbursement requests and processes them timely as received. As stated above, the sustainability of the program is well managed by the LDEQ. Although some of the indicators are below the National average the pace of the program continues to increase which is an important factor to the health and perpetuity of the CWSRF program.

III. Statement of Compliance with SRF Annual Review Guidance

We have conducted an annual review of the Louisiana Department of Environmental Quality's Clean Water State Revolving Fund Program for program year 2014, in accordance with EPA's SRF Annual Review Guidance.

LDEQ FY14 CWSRF EOY PER
RECCOMENDED ACTION ITEMS

RECCOMENDED ACTION ITEMS	DUE DATE
If the operating agreement is not amended prior to the FY15 cap grant application, compliance with the new requirements will need to be included in the FY16 IUP.	FY2016 IUP
Please update EPA regarding the FY14 GPR project status.	Update Received Response in PER
EPA recommends LDEQ update their crosscutter SOP, which describes the state's process for implementing federal cross-cutter authorities, to include any program changes made in lieu of the recent crosscutter memo. This SOP should include information on the state's internal analysis, if applicable. EPA recommends a brief description of this revised cross-cutter process be included in the updated OA.	EPA staff will follow-up during FY15 Onsite Review